Massachusetts Electric
A National Grid Company

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Mary L. Cottrell, Secretary
Dept. of Telecommunications and Energy
One South Station, 2nd Floor
Boston, MA 02110

Re: Docket No. D.T.E. 01-106, Investigation by the Department of Telecommunications and Energy on its own Motion to Increase the Participation Rate for Discounted Electric, Gas and Telephone Service Pursuant to G.L. c. 159, § 105 and G.L. c. 164, § 76 and D.T.E. 05-56, Residential Assistance Adjustment Provision.

Dear Secretary Cottrell:

On behalf of Massachusetts Electric Company and Nantucket Electric Company (collectively the "Companies"), I am responding to the Hearing Officer's September 27, 2005 memorandum, which presents an alternative mechanism for the calculation of lost distribution revenue associated with the increased participation rate resulting from the electronic matching process implemented by the Executive Office of Health and Human Services ("EOHHS") as a result of the Department's directives in this case. We appreciate the opportunity to provide these comments.

On July 25, 2005, the Companies proposed a Residential Assistance Adjustment Provision that would provide for the specific identification of, and associated lost revenue calculation for, those customers receiving service on the Companies' Residential Low-Income Rate R-2 ("Rate R-2"), solely as a result of the electronic matching process with the EOHHS. The Companies proposed uniquely identifying these customers and capturing the lost revenue generated by these customers on a monthly basis. The Department docketed the Companies' filing in D.T.E. 05-56.

At the September 16, 2005 technical session immediately following the public hearing in D.T.E. 05-56, the Department Staff ("Staff") proposed an alternative method for the calculation of lost revenue, which is the subject of the Hearing Officer's memorandum upon which the Companies are providing their comments. The Companies will comment on each aspect of the Staff's alternative mechanism individually.

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1. All Residential Assistance Adjustment Factor ("RAAF") tariffs will have an effective date of November 1, 2005.

Although we originally proposed an effective date of September 1, 2005 for our tariff, the Department suspended the effective date to November 1, 2005 to provide for further investigation. Nevertheless, the Companies implemented the matching program with EOHHS and transferred customers to Rate R-2 on September 21, 2005, prior to the Department's approval of our tariff, in order to enable eligible customers to take advantage of the discount rate earlier. In a letter to the Department on September 22, 2005, the Companies notified the Department of our decision to implement that match and our understanding that the Department's order D.T.E.01-06-B allowed recovery of the lost revenue prior to the implementation of the tariff. Accordingly, the Companies are not opposed to a November 1, 2005 effective date provided that all lost revenue associated with the September 21, 2005 transfer of customers to Rate R-2 as a result of the electronic matching program and any subsequent transfer of customers to Rate R-2 prior to the tariff's effective date is included in the lost revenue to be recovered by the Companies.

2. The adjustment factor will be calculated on a prospective basis, similar to the method proposed in the tariffs that were filed by NSTAR Electric in D.T.E. 05-55. Companies shall forecast the expected low-income shortfall for the next twelve months. Any subsequent over- or under-recovery will be reconciled in the following year.

Although the Companies would not oppose a prospective recovery mechanism, we believe that a retrospective recovery mechanism is the simplest approach to compliance with the Department's directives in D.T.E. 01-106-B. Rather than merely accumulating the lost revenue and then recovering it on a retrospective basis, two reconciliations would have to occur with a prospective mechanism. First, the estimated lost revenue would need to be trued-up to the actual lost revenue for the period, and then the actual lost revenue would need to be reconciled against the revenue actually received through the factor. Nantucket Electric Company's Cable Facilities Surcharge works in this way, and the Companies have found it to be unnecessarily complicated. Thus, if simplicity is the primary goal of this mechanism, and since interest accrues on the lost revenue on a monthly basis, a retrospective recovery mechanism would be more appropriate.

3. For gas companies, the reconciliation will occur concurrently with peak/winter LDAF filings. For electric companies, the reconciliation will occur concurrently with annual transition charge reconciliation filings.

The Companies do not oppose this provision. Under the proposed prospective recovery mechanism, the Companies would submit the reconciliation as part of our January 2006 filing, to take effect on March 1, 2006, and would recover lost revenue for the electronic matching program year October 2005 through September 2006[1]. Under a retrospective method, the Companies' filing in which we would seek recovery of lost revenue would occur in January

[1] The first year lost revenue would reflect the early implementation of the electronic matching program on September 21, 2005.

2007, and the RAAF proposed in that filing would be designed to recover lost revenue for the same program year of October 2005 through September 2006.

4. Over- or under-recoveries will accrue interest at the prime rate as reported by the Bank of America in Boston, consistent with Department regulations. See 220 C.M.R. § 6.08(2).

The Companies originally proposed the interest rate on the lost revenue accumulation and recovery to be the same as that reflected in its other reconciliation mechanisms accruing interest, which is the interest rate on customer deposits. Not only is the interest rate on customer deposits, defined in 220 C.M.R. § 26.09(1) as that paid on two-year United States Treasury notes for the preceding 12 months ending December 31, lower than the prime rate, but 220 C.M.R. § 6.08(2) is applicable to gas companies, not to electric companies. The interest rate applicable to lost revenue resulting from the electronic matching program does not need to be the same for all electric and gas companies, but within each electric and gas company. Therefore, the Companies recommend that this section of the alternative method be changed to reflect the varying nature of interest rates among the electric and gas companies.

5. Companies shall establish a baseline amount of low-income discount that is collected through base rates for the twelve months ending June 30, 2005. The baseline amount shall be calculated as the difference between the base rate revenues that would have been collected from customers receiving the low-income discount during the year ending June 30, 2005, had no low-income discount existed and the actual base rate revenues collected from low-income customers for the twelve months ending June 30, 2005.

We recommend two revisions to this aspect of the proposal. The first regards the calculation of the baseline amount. As proposed, the baseline amount does not reflect the revenue collected through base rates, but rather reflects the discount provided to Rate R-2 customers. The revenue collected through base rates is that revenue generated by other customers who pay for the discount. It is calculated by taking the cents per kWh for the low income subsidy in a utility's last rate case (test year subsidy divided by test year kWh) multiplied by the kWh deliveries for a twelve month period. This revenue amount is different than what the proposal describes, which is akin to a cost number, not a revenue number.

The second revision is associated with the application of the baseline amount. Using one twelve month period to establish a baseline amount of revenue and then comparing this to a subsequent twelve month period of discounts provided to all Rate R-2 customers does not take into consideration the effects of weather on either the revenue aspect or the discount aspect. If the first twelve month period contained an extremely cold winter and an extremely hot summer, then the revenue collected from customers could be considered overstated unless those weather conditions are repeated in the second twelve month period. If the weather is less severe in the second twelve month period, then the lost revenue is understated (fewer kWh deliveries to Rate R-2 resulting in less of a discount provided and thereby less lost revenue). In the alternative situation, if weather is mild during the first twelve month period and severe in the second twelve month period, then lost revenue is overstated (greater kWh deliveries to Rate R-2 resulting in more of a discount provided and thereby more lost revenue). Electric companies are not required

to weather normalize their revenue and kWh deliveries as the gas companies are. Therefore, it would be more appropriate to measure the revenue collected, as described above, and the discounts provided to Rate R-2 customers over the same twelve month period. Recovering lost revenue on a retrospective basis further maintains the simplicity of the model.

6. On or after July 1, 2005, any amount of low-income discount (whether customers are enrolled in the low-income discount rate through traditional outreach or the computer matching program) in excess of the baseline amount will be eligible for recovery through the RAAF.

The Companies agree with this aspect of the proposal.

7. In the event that a company's total low-income discount in a given year is below the baseline amount, no refund of any baseline amount will be due to ratepayers.

The Companies agree with this aspect of the proposal.

Very truly yours,

Amy G. Rabinowitz

cc: DTE 01-106 Service List